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X THE POTENTIAL FOR COOPERATIVE CATTLE FEEDING LOTS
IN THE SOUTH;

by R. L. Fox*

In considering this subject I recognized that your organization and interest covers a big territory--all the way from the Atlantic Ocean to the high plains of west Texas. Naturally, the conditions which need attention are varied from section to section.

Large cattle feedlots are uncommon in most of the South. The main exception is in Texas and Oklahoma. A few are operating in the other States, and widespread interest has been manifested from many sources.

Cooperative cattle feedlots have been even less common in the South, and indeed almost a novelty. One has operated in Oklahoma for many years as a service to cattlemen. Others began in Florida and Georgia a few months ago.

We can see from this situation that the use of the word potential in my assigned topic is correct. Consideration of cooperative cattle feedlots in the South must certainly be mainly from the standpoint of their possibilities and not an actual appraisal of experiences with them.

In the following discussion of the potential for materially expanding cooperative cattle feedlots, many of my projections and opinions that I will include are based on less complete information than I would like. However, I do want to thank my friends from the Universities who gave me some extremely helpful information and were willing to express their opinions on the future of feedlots. The interpretations in this talk are strictly my own.

Changes in Southern Agriculture

When we begin to think about cattle feeding possibilities, we are quickly reminded of the drastic changes in southern agriculture in the past few years.

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First, there has been a change in types of crops produced. The reduction in acreage of crops such as cotton, tobacco, and peanuts has made a place for greater production of pasture grasses, forage crops, and feed grains. I realize that the shift has been greater in some States than others, and the shift has not affected each crop to the same degree. However, there has been a continuing shift in most areas.

Second, cattle production has increased and technological advances in breeding, feeding, and management have enabled the area to produce better cattle. Your feeder calves are now purchased by some of the best Corn Belt farm feedlots, as well as the large commercial feedlots in Arizona and California.

Southern Beef Production

Now, what about fed beef production in the South? With the exception of Oklahoma and Texas, cattle feeding has been relatively unimportant compared with other sections of the United States. However, there has been a beginning. The January 1, 1965 cattle and calves on feed report shows substantial number being fed. Five States reported more than 50,000 on feed: Texas, Oklahoma, Georgia, Florida, and Kentucky.

Only Oklahoma and Texas appear to be producing enough fed beef tonnage to supply the demand within their State. It is estimated that most of the other States produce less than half of the fed beef consumed.

This substantial deficit of fed beef production in relation to consumption in the South is filled in two main ways. Local slaughtering plants import fed cattle from outside sources.

Meat packers outside of the region send a large tonnage of dressed beef to wholesale and retail merchants who supply the local outlets. We may note here that many local slaughterers have excess capacity, not used presently, in their facilities.

What is the extent of cattle feedlot operations in the southern territory today? Although complete records are not available, there probably are no more than 250 feedlots in existence in the South that have an annual output of over 1,000 head each. Most of these are located in the western part of the region. Only a few lots of this size are found in the rest of the area. Most of the feeding remains in the hands of small farmers using some grain and byproducts of the farm enterprise to feed a limited number of cattle on a seasonal basis.

Several outside forces have been operating on this level of beef feeding. For example, meat packers and other organizations seeing the need for greater units of production have active programs to encourage the production of more fed beef. Historically the slaughterers located in the South have been unable to secure an adequate supply of locally fed cattle to keep their plants operating at capacity, and to supply their demand for high quality beef.

The State Experiment Stations are carrying on research that provides greater information on cattle feeding. Some of these studies indicate that beef feeding should expand. However, the depressed cattle prices of 1963-64 did little to encourage any expansion among most southern feeders.

Some people feel that there will be a continued increase in cattle feeding in the next few years. These predictions specifically mention Texas, where there already is the largest amount of cattle feeding, which may more than double its feeding by 1970. Other States where conditions are favorable will no doubt show substantial increases.

Southern Beef Feeding Economics

In exploring the potentials of cooperative feedlots, I find that they involve most of the same considerations that almost any other person or firm should consider before starting in this business. We can readily look at these matters in general terms.

The accepted criteria for successful cattle feeding for many years were the availability of feed at reasonable prices, an adequate supply of feeder calves at competitive prices, and readily accessible markets. You can demonstrate with the use of good examples that these would establish an ideal situation for cattle feeding.

However, all of the desirable factors are usually not present in any one part of the country. Even the midwestern Corn Belt section appears to be losing some of its advantages to areas that must ship in either cattle or feed grains or both because they are close to a market with a big demand for beef. Some cattle feeding ventures have been unsuccessful in parts of the United States where both cattle and grains are in surplus.

Quite evidently, the problem is too complicated to expect a satisfactory answer from a simple and general analysis.

In the briefest of terms, the economic problem is to determine the most profitable level of beef feeding in the South. Then there are the secondary questions of learning the most economical sizes and other characteristics for these feeding enterprises. But, I believe the question of profitability of the enterprise includes the main problems of inter-regional competition and competitive advantage that concern us.

The mathematical economist would approach our economic problem by building an elaborate economic model. We should note that this economist would require quite a monumental amount of information, considerable skill in designing an appropriate model and fitting in the appropriate data, and then a large capacity computer.

Armed with such tools, a simultaneous comparison could then be made of a few, or perhaps many, alternative enterprises in the South. We would learn about the relative profitability of cattle feeding, broiler production, and producing eggs, turkeys, swine, or milk. At the same time, each of these would be compared with

major cash crop enterprises, including cotton, peanuts, tobacco, corn, soybeans and others. Even if the model building approach were taken in looking at the problem, we need to be aware that changing conditions would require ever changing models.

I regret that we do not have, as yet, all the information needed to give you an answer through such methods. I certainly did not employ such a process in preparing this talk.

However, the idea of economic model building helps to organize our thinking, even though our own methods of analysis may be much simpler at present. The use of model building also points out for us the particular questions that most urgently demand further information based on up-to-date research.

Competition with other Farming Enterprises

We can begin to study the general economic problem of feeding beef in the South by assembling information on the position and profitability of other ~~livestock~~ enterprises. Certainly beef feeding must compete with other possible livestock enterprises, and with cotton, peanuts, and other cash crops.

We already have noted the steady shift away from cotton, in particular, and toward poultry and cattle. The economic conditions that underlie these trends need to be watched carefully. Broiler and egg production, for example, continues to enjoy some advantages in the South. The market for fluid milk will increase, as well as the market for fed beef. Farm woodlot operations are in competition with grazing land.

These items serve as a reminder that the opportunity for livestock feeding does not exist in a vacuum. This talk is not the place for further discussion of these competitive relationships.

Technical Features of Feeding Beef

The availability of grass forage crops and grains is important in considering any expansion in cattle feeding. First grass and forage crops are necessary to keep a supply of feeders moving to feedlots. These are the backbone of keeping the cattle business on a sound basis.

New crops for ensilage, green chop, and haylage appear to be made to order for adoption by farmers and feeders in the South. These crops are adaptable to the area which has a longer growing period than the Middle West Corn Belt region. It remains to be seen if this type of agriculture will net sufficient returns to promote enough expansion in these crops to assure a feed supply for more cattle feeding. However, some crop byproducts and residues could be used in feeding more beef today.

A large portion of the South has long been a deficit grain producing area. Delivery costs on grain have tended to put livestock feeding at some disadvantage. However, grain production has been on the increase especially in the southeast section. More corn and feed grains will furnish necessary ingredients for animal feeds. The climatic conditions and new varieties of crops enables some of the region to produce two crops a year on the same acreage, thus making a bigger volume of feed available without taking extra acres.

The cow and calf business has been the most important part of the South's beef industry. In the past some feeder calves produced did not perform too well when placed in feedlots for extended feeding periods and many early shipments were a disappointment in Corn Belt feedlots.

Cattle improvement in the South has been rapid. Today's calves going out of the region for finishing are doing as good a job as any of equal grade. The quality of cattle available for feeding should not deter expansion of cattle feedlots.

Although quality improvement is apparent, some people still complain that fed cattle of equal grade must sell at lower prices in the South than in other producing regions. There is little doubt that some price inequities have plagued the production and marketing of livestock in the area. The price differential which has existed has been greater than transportation charges to the large processing and consuming centers. This is probably one reason why the expansion in cattle feeding has been held back. The improvement in quality plus increasing demand for heavier fed beef could erase most price discrepancies.

Environmental factors such as high humidity and hot weather also have been blamed for lack of feeding in the region. The development and conditioning of animals makes this of less importance today than in the past. Research has been conducted to determine amount of shelter and concrete flooring needed to lessen the effects of weather conditions on cattle. In fact, some of our weather is less severe than in the Corn Belt area. Additional studies will shed a great deal more light upon ways to cope with weather conditions.

Costs of Feeding Cattle

The cost of beef production represents one of the most important items in determining profit or loss. Animal husbandry researchers and cattle feeders agree that they must find ways of increasing the efficiency of production. Unless costs are reduced, the cattle feeding industry may find in the future that they are unable to compete with other meat products. A dollar a hundred cut in the cost of production would be a big help to meet any further competition that might develop.

To firmly establish the feasibility or potential of the expansion of cattle feeding in the South, it would be necessary to know the comparison of costs with other feeding areas. Since the costs vary as much within an area as between regions no attempt has been made to weigh these. Some items affecting cost of feeding are apparent and important to think about.

The cost of calves going into locally operated feedlots may represent a price advantage of \$1 to \$2 per hundredweight over the cost of shipping the same calves to feeders in the Corn Belt and western States. The availability of good feeder animals at little or no transportation costs should encourage local feeding.

High transportation charges on feed grains tended to increase the costs of cattle feeding in the past.

Although substantial transportation costs have not prevented expansion of cattle feeding in Arizona and California, the South does not have the advantage of as big a consumer demand as the West.

The changes in rail rates on feed grain delivered to the Southeast make this area more attractive for the establishment of cattle feedlots. It appears now that corn delivered from St. Louis to Alabama might cost only 9 to 12 cents a bushel more than to the Midwest feeder. Other areas are somewhat comparable. Animals can be finished at a savings of \$2 to \$5 or even more a head under the cost of grain feeds 2 years ago.

Investments in facilities for cattle feeding are important in determining costs involved in producing beef. Climatic conditions make concrete flooring in pens and overhead shelters a necessity in most sections. However, some recent research indicates that the additional investments could be quite beneficial.

An Iowa State University study reports that concrete feeding floors with overhead shelter for spring and summer feeding saved an average of \$3.78 per steer. Steers on concrete gained one-tenth of a pound per day more than the check lots but added another two-tenths of a pound per day when they were also under shelter. Many feedlot operators have told me that their cattle gain very little in wet muddy pens or whenever weather conditions change rapidly. Many of the areas of the South have similar conditions at certain seasons to those in Iowa.

Feedlots starting in the South can provide concrete floors and shelter economically as most feeding regions. The milder climate existing in the South would probably require less shelter than in the Corn Belt Region. The milder climate should also conserve feed which has to be used for body heat in colder climates.

Limited research results indicate that favorable feed conversion ratios are being obtained in the southern area. If these costs are at or below commercial rates in other regions, then the costs of feeding beef should be as decreased in continued feeding. The continued development and production of new grains and forage, and grain crops could further decrease the cost of production.

Demand for Beef

The human population in the South has increased by almost 8 percent since 1960, and an increase of 33 percent is predicted from 1960 to 1976. In addition to this increase in the numbers of people, the demand is for higher grades and heavier beef. One result of this change can already be seen. There are less pronounced shift away from consumption of a high percentage of calf carcasses.

Even if the South makes no attempt to fill the gap locally between today's production and consumption, it will require beef from another 1.5 million animals to meet consumers' needs in 1975.

The change in taste for heavier and the better grades of beef coupled with expanding markets is building a bigger demand for fed beef. The growing population plus the desire for more beef assures the expansion of markets.

To summarize our knowledge about the potential for additional cattle production in the South - much more research and study is needed to help make decisions.

Cooperative Cattle Feedlots

The general economic problems dealing with costs and margins of cattle feeding for the area should have the first priority in making determinations regarding the industry. Perhaps the most we can do at this time is to point out advantages of cooperative feedlots to the cattle producer. The feedlot can

1. Spread the facility cost for each member because investment per head in larger lots is less than in the smaller ones. Feedlots used on a year around basis could also lower costs to all participants, especially to those who would only feed one group of cattle. If the fixed costs are \$25 per head of capacity, a turnover of two times a year would lower this to \$12.50 per head. An individual feeder using his facilities only once a year would need to charge the full cost for this one use.

2. Obtain expert feeding and marketing management which farmers as individuals could not otherwise obtain. Cooperatives starting in the South will be glad to obtain the most skilled managers to meet the competition from other regions and to keep their costs low.

3. Take advantage of lower prices by purchasing feed in quantity and at periods when prices are lowest. A cooperative would be large enough to take advantage of the 450-ton grain rail rates, while individuals, especially small farmers, would not use enough and would lack storage facilities. The cooperative would provide grain storage that might be uneconomical to individual farm feeders.

4. Assist in obtaining favorable credit terms to finance members' operations and cattle feeding. A joint endeavor with greater resources should be able to secure better credit terms. Most of a cooperative's membership would probably need some assistance in financing.

5. Provide additional services such as veterinary and the like at more reasonable prices through fuller use of the veterinarian's services.

6. Feed cattle to desirable slaughter weights, thus permitting producers to participate in any margins accruing from cattle feeding. This may be attractive since the farmer now selling feeder calves is feeling the pinch in prices. This would provide a source of fed cattle to slaughterers on a uniform basis of delivery in order to supply retail outlets.

2. Why feedlot feeding and finisher?

3. Feeding a livestock and finishing operation. In 1940, the average experience was difficulty in disposing of grains and livestock. A cooperative feedlot could utilize this feed for the profit of the members and feeders.

9. Pool animals fed in the feedlot and thus give farmers the benefit of spreading out the fluctuations in market prices.

10. Maintain greater bargaining strength at marketing time because of the control of larger numbers. Most market outlets today demand a quantity of uniform quality available and delivered on a regular basis. In order to assure a steady market outlets, in many cases, the cooperative feedlot may use contracts with purchasers and processors.

Naturally farmers using a cooperative feedlot need to alter some farm operations and practices. The feeding, finishing, and marketing of the cattle will be turned over to the management of the cooperative.

Individual farmers usually decide on the kind of cattle to feed, how to use them, and when and where to market. Many livestock producers and small farmers hesitate to give up these prerogatives. However, they may benefit from the pooling ownership and control through a cooperative than by going it alone or having others to perform the services.

Conclusions

A review of the position of beef feeding shows that:

1. Feeding is technically more favorable than in the past. We have found that overcoming unfavorable environmental factors. Improvement in quality of animals produced cattle now enables feeders to compete quality for quality with other feeding regions. New pasture grasses, forage crops, and grains are being grown in greater quantity. There is evidence that these can be expanded considerably.

2 Several economic changes have made feeding more favorable. The availability of more grass and forage crops to produce and support cow and calf production is an important item in holding down production costs. Calves from these herds provide feeder cattle to supply the potential lots in abundance. Lowering of transportation rates of feed grains places feeders in a more competitive position with other beef feeding areas.

The demand for higher quality meat is present as shown by the quantity of high grading beef which must be shipped into the region. The estimate that 10 million head of cattle will be needed to supply the beef for the people in 1975 indicates the demand in the future.

Although conditions appear more favorable, a lot more facts are needed, based on research, to really know the amount of cattle feeding that is economical, if possible in the South. The economic feasibility of feeding is the primary question needing an answer. Questions of exact location, size, and form of organization are secondary.

There is a potential for cooperative feedlots, if any kind is feasible.

Members who use services of a cooperative feedlot can plan and operate a program specifically designed for their own needs and interests. Should these services be furnished by others, there would be no opportunity for farmers to participate in the benefits that may result from the operations of such enterprises.

Who can capitalize on these potentials? New cooperative organizations representing livestock producers and existing cooperatives now performing other functions could build cattle feedlots as a service to their membership.

The real test of whether cooperatives will furnish feedlot services rests mainly upon the livestock grower and whether he will demand such services. The success of cooperatives will depend upon their ability to operate feedlots and feed cattle in competition with other regions.

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